

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	2011 £m		2010 £m	
		Half year	Half year	Half year	Full year
Earned premiums, net of reinsurance		12,930	11,256	24,211	
Investment return	J	7,750	5,027	21,769	
Other income		923	754	1,666	
Total revenue, net of reinsurance		21,603	17,037	47,646	
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	K	(17,590)	(13,650)	(40,518)	
Acquisition costs and other expenditure	I	(2,615)	(2,654)	(4,799)	
Finance costs: interest on core structural borrowings of shareholder-financed operations		(140)	(129)	(257)	
Total charges, net of reinsurance		(20,345)	(16,433)	(45,574)	
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)*		1,258	604	2,072	
Tax charge attributable to policyholders' returns		(94)	(11)	(611)	
Profit before tax attributable to shareholders	C	1,164	593	1,461	
Tax charge	L	(395)	(160)	(636)	
Less: tax attributable to policyholders' returns		94	11	611	
Tax charge attributable to shareholders' returns†	L	(301)	(149)	(25)	
PROFIT FOR THE PERIOD‡		863	444	1,436	
Attributable to:					
Equity holders of the Company		861	442	1,431	
Non-controlling interests		2	2	5	
PROFIT FOR THE PERIOD‡		863	444	1,436	
EARNINGS PER SHARE (IN PENCE)					
Based on profit attributable to the equity holders of the Company:‡	M				
Basic		34.0p	17.5p	56.7p	
Diluted		33.9p	17.5p	56.6p	

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. The half year 2010 and full year 2010 profit before tax are stated after £377 million of pre-tax costs of the terminated AIA transaction. See note G.

† The full year 2010 tax charge attributable to shareholders' returns included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

‡ All profit is from continuing operations.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
PROFIT FOR THE PERIOD		863	444	1,436
Other comprehensive income:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		(70)	315	217
Related tax		(5)	(8)	34
		(75)	307	251
Available-for-sale securities:				
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Unrealised holding gains arising during the period		287	1,123	1,170
Deduct net (gains)/add back net losses included in the income statement on disposal and impairment		(50)	21	51
Total	V	237	1,144	1,221
Related change in amortisation of deferred income and acquisition costs		(97)	(510)	(496)
Related tax		(49)	(215)	(247)
		91	419	478
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF RELATED TAX		16	726	729
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		879	1,170	2,165
Attributable to:				
Equity holders of the Company		877	1,168	2,160
Non-controlling interests		2	2	5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		879	1,170	2,165

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 Jun 2011 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
RESERVES								
Total comprehensive income for the period	–	–	861	(75)	91	877	2	879
Dividends	–	–	(439)	–	–	(439)	–	(439)
Reserve movements in respect of share-based payments	–	–	25	–	–	25	–	25
SHARE CAPITAL AND SHARE PREMIUM								
New share capital subscribed	–	15	–	–	–	15	–	15
TREASURY SHARES								
Movement in own shares in respect of share-based payment plans	–	–	(10)	–	–	(10)	–	(10)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	2	–	–	2	–	2
Net increase/(decrease) in equity	–	15	439	(75)	91	470	2	472
At beginning of period	127	1,856	4,982	454	612	8,031	44	8,075
AT END OF PERIOD	127	1,871	5,421	379	703	8,501	46	8,547

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY > CONTINUED

	Period ended 30 Jun 2010 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
RESERVES								
Total comprehensive income for the period	–	–	442	307	419	1,168	2	1,170
Dividends	–	–	(344)	–	–	(344)	–	(344)
Reserve movements in respect of share-based payments	–	–	15	–	–	15	–	15
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	3	3
SHARE CAPITAL AND SHARE PREMIUM								
New share capital subscribed (including shares issued in lieu of cash dividends)	–	39	–	–	–	39	–	39
Reserve movements in respect of shares issued in lieu of cash dividends	–	(26)	26	–	–	–	–	–
TREASURY SHARES								
Movement in own shares in respect of share-based payment plans	–	–	8	–	–	8	–	8
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	4	–	–	4	–	4
Net increase in equity	–	13	151	307	419	890	5	895
At beginning of period	127	1,843	3,964	203	134	6,271	32	6,303
AT END OF PERIOD	127	1,856	4,115	510	553	7,161	37	7,198

	Year ended 31 Dec 2010 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
RESERVES								
Total comprehensive income for the year	–	–	1,431	251	478	2,160	5	2,165
Dividends	–	–	(511)	–	–	(511)	–	(511)
Reserve movements in respect of share-based payments	–	–	37	–	–	37	–	37
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	7	7
SHARE CAPITAL AND SHARE PREMIUM								
New share capital subscribed (including shares issued in lieu of cash dividends)	–	75	–	–	–	75	–	75
Reserve movements in respect of shares issued in lieu of cash dividends	–	(62)	62	–	–	–	–	–
TREASURY SHARES								
Movement in own shares in respect of share-based payment plans	–	–	(4)	–	–	(4)	–	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	3	–	–	3	–	3
Net increase in equity	–	13	1,018	251	478	1,760	12	1,772
At beginning of year	127	1,843	3,964	203	134	6,271	32	6,303
AT END OF YEAR	127	1,856	4,982	454	612	8,031	44	8,075

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	Note	2011 £m	2010 £m	
		30 Jun	30 Jun	31 Dec
Intangible assets attributable to shareholders:				
Goodwill	Q	1,469	1,465	1,466
Deferred acquisition costs and other intangible assets	R	4,773	4,028	4,609
Total		6,242	5,493	6,075
Intangible assets attributable to with-profits funds:				
In respect of acquired subsidiaries for venture fund and other investment purposes		169	124	166
Deferred acquisition costs and other intangible assets		93	110	110
Total		262	234	276
Total		6,504	5,727	6,351
Other non-investment and non-cash assets:				
Property, plant and equipment		761	382	612
Reinsurers' share of insurance contract liabilities		1,334	1,369	1,344
Deferred tax assets	L	2,120	2,691	2,188
Current tax recoverable		384	575	555
Accrued investment income		2,460	2,559	2,668
Other debtors		1,638	1,467	903
Total		8,697	9,043	8,270
Investments of long-term business and other operations:				
Investment properties		10,965	11,360	11,247
Investments accounted for using the equity method		71	9	71
Financial investments*:				
Loans	T	9,017	9,587	9,261
Equity securities and portfolio holdings in unit trusts		91,037	71,775	86,635
Debt securities	U	117,213	113,334	116,352
Other investments		6,121	6,768	5,779
Deposits		10,858	9,766	9,952
Total		245,282	222,599	239,297
Properties held for sale		394	3	257
Cash and cash equivalents		8,589	6,040	6,631
TOTAL ASSETS	O	269,466	243,412	260,806

* Included within financial investments are £8,744 million, £9,774 million and £8,708 million of lent securities as at 30 June 2011, 30 June 2010 and 31 December 2010 respectively.

Equity and liabilities	Note	2011 £m	2010 £m	
		30 Jun	30 Jun	31 Dec
EQUITY				
Shareholders' equity		8,501	7,161	8,031
Non-controlling interests		46	37	44
Total equity		8,547	7,198	8,075
LIABILITIES				
Policyholder liabilities and unallocated surplus of with-profits funds:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	Z	221,432	198,913	214,727
Unallocated surplus of with-profits funds	Z	10,872	10,066	10,253
Total		232,304	208,979	224,980
Core structural borrowings of shareholder-financed operations:				
Subordinated debt		3,044	2,767	2,718
Other		954	715	958
Total	W	3,998	3,482	3,676
Other borrowings:				
Operational borrowings attributable to shareholder-financed operations	X	2,912	3,234	3,004
Borrowings attributable to with-profits operations	X	1,440	1,313	1,522
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		4,537	3,222	4,199
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,203	2,667	3,372
Deferred tax liabilities	L	4,194	4,115	4,224
Current tax liabilities		876	1,272	831
Accruals and deferred income		585	555	707
Other creditors		2,599	3,246	2,321
Provisions		587	641	729
Derivative liabilities		2,385	2,033	2,037
Other liabilities		1,299	1,455	1,129
Total		20,265	19,206	19,549
Total liabilities		260,919	236,214	252,731
TOTAL EQUITY AND LIABILITIES	O	269,466	243,412	260,806

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS CONTINUED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note (i)}		1,258	604	2,072
Changes in operating assets and liabilities ^{note (ii)}		872	516	(136)
Other items ^{note (iii)}		75	167	12
Net cash flows from operating activities		2,205	1,287	1,948
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash flows from purchases and disposals of property, plant and equipment		(42)	(22)	(89)
Acquisition of subsidiaries, net of cash balance ^{note (iv)}		(41)	(101)	(145)
Net cash flows from investing activities		(83)	(123)	(234)
CASH FLOWS FROM FINANCING ACTIVITIES				
Structural borrowings of the Group:				
Shareholder-financed operations: ^{note (v)}	W			
Issue of subordinated debt, net of costs		340	–	–
Bank loan		–	–	250
Interest paid		(137)	(131)	(251)
With-profits operations: ^{note (vi)}	X			
Interest paid		(4)	(4)	(9)
Equity capital: ^{note (vii)}				
Issues of ordinary share capital		15	13	13
Dividends paid		(439)	(318)	(449)
Net cash flows from financing activities		(225)	(440)	(446)
Net increase in cash and cash equivalents		1,897	724	1,268
Cash and cash equivalents at beginning of period		6,631	5,307	5,307
Effect of exchange rate changes on cash and cash equivalents		61	9	56
CASH AND CASH EQUIVALENTS AT END OF PERIOD		8,589	6,040	6,631

Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
 (ii) The adjusting items to profit before tax included within changes in operating assets and liabilities are as follows:

	2011 Half year £m	2010 Half year £m	2010 Full year £m
Other non-investment and non-cash assets	(872)	(997)	(1,161)
Investments	(6,984)	(5,278)	(24,594)
Policyholder liabilities (including unallocated surplus)	8,530	6,086	24,287
Other liabilities (including operational borrowings)	198	705	1,332
Changes in operating assets and liabilities	872	516	(136)

- (iii) The adjusting items to profit before tax included within other items are adjustments in respect of non-cash items, together with operational interest receipts and payments, dividend receipts and tax paid.
- (iv) The acquisition of subsidiaries in half year 2011 related to the PAC with-profits fund's purchase of two venture investments with an outflow of £41 million.
 The acquisition of United Overseas Bank Life Assurance Limited (UOB) in 2010 resulted in an outflow of cash from investing activities of £133 million in the 12 months ended 31 December 2010 (30 June 2010: £101 million). The remaining outflow of £12 million in full year 2010 related to the PAC with-profits fund's purchase of Meterserve.
- (v) Structural borrowings of shareholder-financed operations comprise core debt of the parent company, PruCap bank loan and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- (vi) Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
- (vii) Cash movements in respect of equity capital in 2010 exclude scrip dividends. The scrip dividend alternative has been replaced by the Dividend Re-investment Plan (DRIP) from the 2010 final dividend.